

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON GREATER GIYANI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Greater Giyani municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Accumulated surplus

4. The following findings were qualified in the prior year and are not yet resolved:
 - The municipality could not provide sufficient appropriate audit evidence to support employee related costs to the amount of R14 991 760 for the months of November 2009 to February 2010. Consequently, I was unable to obtain sufficient appropriate evidence to satisfy myself as to the completeness and valuation and allocation of the accumulated surplus opening balance amounting to R171 846 354 in the statement of changes in net assets.

Property, plant and equipment

5. The property, plant and equipment balance (PPE) of R174 894 362 (2010: R158 268 970), as disclosed in note 3.1 to the financial statements revealed the following material errors when reconciled to the underlying accounting records and financial statements:

- Unreconciled difference of R14 536 125 between the underlying accounting records and the balance of PPE as disclosed in the financial statements. The municipality imposed a limitation on the scope of my work, as I was not given valid explanations and supporting documentation for the reconciling difference between the accounting records and the financial statements. The municipality's records did not permit the application of alternative audit procedures.
- Work in progress (WIP) was not separately disclosed in the PPE disclosure note 3.1 to the financial statements.
- Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the rights, existence and valuation of PPE and the related accumulated depreciation and depreciation amounts of R17 957 124 (2010: R14 122 016) as disclosed in note 22 to the financial statements.

Cash and cash equivalents

6. The municipality could not provide sufficient appropriate audit evidence to support reconciling items totalling R1 798 562 between cash and cash equivalents stated in the statement of financial position and the underlying accounting records. Consequently, I could not satisfy myself as to the existence, completeness, valuation, allocation and rights pertaining to cash and cash equivalents amounting to R25 490 367 (2010: R2 861 766).

Receivables

7. Trade and other receivables as disclosed in note 7 to the financial statements include other unclassified debtors amounting to R10 582 045 (2010: R10 728 429) for which no supporting schedules were provided to me for audit. There is also no accurate records system maintained by the municipality for other unclassified debtors. The municipality's records did not permit the application of alternate audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation, existence, recoverability and allocation of receivables amounting to R35 206 734 (2010: R29 845 330).

8. Trade and other receivables as disclosed in note 7 to the financial statements includes an amount of R1 160 875 relating to rates charged on land and buildings registered in the name of the municipality. There will not be any future economic benefits flowing to the municipality and therefore the amount does not represent a receivable to the municipality. As a result, trade and other receivables and accumulated surplus is overstated by R1 160 875.

Cash flow statement

9. Presentation of a cash flow statement, summarising the municipality's operating, investing and financing activities, is required by the Standard of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements*. Included in the cash flow statement is an amount of R30 029 602 (2010: R15 449 423) under cash flows from operating activities for which I could not obtain supporting calculations. An amount of R30 566 016 (2010: R21 649 663) has been disclosed as the total for cash flows from investing activities for which I could not obtain supporting calculations. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy, presentation and completeness of the amounts included in the cash flow statement

VAT Receivable

10. As disclosed in note 6 to the financial statements, the corresponding figure for accounts receivable (VAT) has been restated by R17 205 227 in order to address a prior year misstatement. No supporting documentation was available for the restatement. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and rights pertaining to the VAT receivable balance of R14 777 988.

Trade and other payables

11. Included in the trade and other payables balance of R20 857 661 as disclosed in note 12 to the financial statements is an amount of R8 200 226 (2010: R6 390 936) owed to the District municipality. The municipality could not provide me with sufficient appropriate audit evidence to support this amount in the financial statements. The municipality's records did not permit the application of alternative audit procedures and no confirmation was obtained regarding the amount payable to the district. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and obligations pertaining to the accounts payable account balance.

12. As disclosed in note 12 to the financial statements, the corresponding figure for accounts payable (accrued leave pay) has been restated by R2 931 393 in order to address a prior year misstatement. No supporting documentation was available for the restatement. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation, allocation and obligation pertaining to the accounts payables corresponding figure of R3 487 219 (2010: R2 931 393). The municipality's records did not permit the application of alternative audit procedures.

Inventory

13. There was no system of control over inventory records on which I could rely for the purpose of my audit to obtain reasonable assurance that all inventory additions, issues, losses and write offs were properly recorded. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, completeness, allocation and existence of inventory of R678 175 (2010: R400 556) disclosed in financial statements. The municipality's records did not permit the application of alternative audit procedures.

Revenue

14. There was no system of control over property rates revenue on which I could rely for the purpose of my audit, and there were no satisfactory procedures that I could perform to obtain reasonable assurance that all property rate revenue was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, accuracy and occurrence of property rates revenue recognised in the financial statements of R12 918 865 (2010: R13 254 631). The municipality's records did not permit the application of alternative audit procedures.

Expenditure

15. There is an unreconciled difference of R5 976 920 between the general ledger and the general expenditure total including repairs and maintenance amounting to R36 413 774 (2010: R28 864 459) as disclosed in note 17 to the financial statements. Consequently, expenditure disclosed in the financial statements is overstated and payables understated.

Irregular expenditure

16. Contrary to the requirements of section 125(2)(d) of the MFMA, the municipality did not disclose irregular expenditure of R69 593 106 as a result of the incorrect interpretation of SCM prescripts and inadequate processes to identify irregular expenditure. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of the irregular expenditure as disclosed in note 30.1 to the financial statements.

Fruitless and wasteful expenditure

17. With reference to note 30.2 to the financial statements, the municipality incurred fruitless and wasteful expenditure amounting to R112 412, which was incurred due to the municipality's failure to honour binding cession agreements which it signed with service providers. This amount has been disclosed. I further noted during my audit an amount of R853 789 incurred as a result of interest and penalties charged due to late payments made to South Africa Revenue Services (SARS). This disclosure was not made in the financial statements as required by section 125 (2)(d) of the MFMA. Consequently, I could not satisfy

myself as to the completeness of the fruitless and wasteful expenditure as disclosed in note 30.2 to the financial statements.

Disclaimer of opinion

18. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

19. As disclosed in note 3.5 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Additional matter

20. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

21. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

22. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I include below my findings on the annual performance report as set out on pages XXX to XXX and material non-compliance with laws and regulations applicable to the municipality

Predetermined objectives

Presentation of information

23. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Measures to improve performance were not reported using the National Treasury guidelines

The following audit findings relate to the above criteria:

24. Measures taken to improve performance are not included in the Annual Performance Report (APR) as a percentage of total number of instances identified where measures taken to improve performance are required in the APR.

Usefulness of information

25. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved Integrated Development Plan (IDP).
- Relevance: There is no clear and logical link between the objectives, outcomes, outputs, indicators and performance targets.

The following audit findings relate to the above criteria:

26. Reported performance against predetermined objectives is not consistent with the approved IDP

27. For the selected objectives, 51-100% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance;

28. For the selected objectives, 51-100% were not clearly linked between the planned and reported targets

Reliability of information

29. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance are not reviewed by a supervisor as proof of review and/ or monitoring of reports to ensure services are delivered
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the annual performance report

The following audit findings relate to the above criteria:

30. All actual results and events that should have been recorded have not been included in the reported performance information

- A numerical sequence check was not performed on the input documents to ensure all input documents have been recorded on the manual system
- Not all input documents are reviewed to ensure completeness of information in the document(s)

The validity, accuracy and completeness of reported performance against targets could not be confirmed as inadequate supporting source information was provided.

31. No proper register was kept of all areas where electricity services were delivered monthly and these registers were not signed by a senior official as proof of monitoring and review from ESCOM and from the municipality
32. Inspected progress reports and payments and found that the municipality planned to complete 9 km of road per the IDP, although only 4.1 km of road completed for the year. No valid reasons or corroborating documents were made available for this material variance.
33. Corroborating evidence was not attached to the annual report to substantiate the validity, accuracy and completeness of the actual targets that was achieved in the year under review.

Compliance with laws and regulations

Annual financial statements, performance and annual report

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122, 123 and 125 of the Municipal Finance Management Act (MFMA). Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer audit opinion.

Audit committees

35. The audit committee did not function as required by section 166 of the MFMA, in that:
 - The audit committee did not advise the council of the municipality on matters relating to internal financial control and internal audits, risk management, accounting policies, performance management, effective governance, compliance with applicable legislation and/or performance evaluation.
 - The audit committee did not respond to the council on any issues raised by the Auditor-General in the audit report.
 - The audit committee did not meet at least four times a year as required by section 166 (4)(b) of the MFMA.

Internal audit

36. The internal audit unit did not function as required by section 165(2) of the MFMA, in that: Internal audit did not advise the accounting officer and/or report to the audit committee on matters relating to risk and risk management.

Procurement and contract management

37. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
38. Quotations were accepted quotations from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
39. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
40. Awards were made to providers whose tax matters had not been declared by the South African Revenue Services to be in order as required by SCM regulation 43.
41. Awards were made to suppliers based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
42. Construction contracts were awarded to contractors that were not registered with the CIDB and/or did not qualify for the contract in accordance with the prescripts of the Construction Industry Development Board.
43. Sufficient appropriate audit evidence could not be obtained that contracts and/or quotations were procured in accordance with legislative requirements and the SCM policy.

Expenditure management

44. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
45. The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
46. The municipality did not recover irregular or fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the MFMA.

Revenue management

47. Interest was not charged on all accounts in arrear as required by section 64(2)(g) of the MFMA.

Asset management

48. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

INTERNAL CONTROL

49. In accordance with the PAA and in terms of General notice *1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report

Leadership

- Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
- Management did not ensure that there was continuity with regard to management and succession of vacant key positions.
- Management did not ensure that action plans on prior year findings were monitored and implemented.

Financial and performance management

- The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- The municipality did not implement controls over daily and monthly processing and reconciling of transactions
- The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- There was no adequate review and monitoring of compliance with applicable laws and regulations
- The municipality did not adequately design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

- The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored
- The municipality did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively
- The municipality did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing

oversight over the effectiveness of the management of the municipality with regard to monitoring the implementation of recommendations.

Auditor-General
Polokwane

30 November 2011



AUDITOR-GENERAL
SOUTH AFRICA

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